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FISCAL IMPACT REPORT

SPONSOR Leavell DATE TYPED 2/15/05 HB _____

SHORT TITLE Financial Assurance To Plug Oil & Gas Wells SB 424

ANALYST Aguilar

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
	NFI				

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill

Senate Bill 424 provides an additional method for oil or gas well operators to provide financial assurance to the Oil Conservation Division (OCD) to satisfy security requirements for the plugging of wells. This additional method would be a well specific insurance policy in lieu of a surety bond, letter or credit or cash deposit and would obligate the insurer; at the time the requirement to plug the well became applicable under OCD rules, to pay the cost of plugging the well up to the policy's face amount.

Significant Issues

The insurer would pay a designated beneficiary upon certification that plugging had been completed pursuant to OCD requirements. If the designated beneficiary failed to plug the well as required, and OCD undertook responsibility to plug the well, the proceeds of the insurance policy would, in that event, be payable to the State as contingent beneficiary of the policy.

As provided for in the bill, if OCD at any time were to increase the amount of the financial assurance required for a particular well, the operator would be required either to obtain an amend-

ment increasing the face amount of the plugging insurance policy or to provide other financial insurance for the meet the new requirement.

SB 424 provides an additional alternative means for oil and gas operators to secure their obligation to plug abandoned wells, and would provide an equivalent level of security to the State that funds would be available to plug depleted or abandoned wells.

The Energy, Minerals and Natural Resources Department notes a plugging insurance policy would cover only the cost of plugging the well bore, and would not cover costs of surface remediation. Other forms of financial assurance apply to both plugging and surface remediation costs. However, that difference is less significant than might be supposed since the amount of financial assurance now required is usually less than the cost of plugging the well bore, leaving no funds from the financial assurance, in most cases, for surface remediation.

ADMINISTRATIVE IMPLICATIONS

Any additional responsibilities associated with this bill would be absorbed by the division.

PA/lg